In 1991 Mercy Healthcare Sacramento (MHS), a system that is a division of Catholic Healthcare West, acquired American River Hospital, a 210-bed facility in the suburbs of Sacramento, CA. The acquisition fit MHS's strategic plan, which was to develop an integrated delivery system covering the metropolitan area. By adding American River, MHS would both increase its capacity and save money. "We had previously planned to spend millions of dollars to expand services at Mercy San Juan Hospital, a facility just a few miles from American River," said Sr. Bridget McCarthy, RSM, president of MHS. "We believed the acquisition would potentially reduce this expenditure."

American River, for its part, had been through several changes in ownership, which had created uncertainty about its future. To its leaders, American River's acquisition by MHS offered potential stability. They also saw joining MHS, an integrated delivery network, as a way for the hospital to gain access to capital and sophisticated medical technology. And they believed that American River's tradition of personalized patient care and its employees' commitment to quality services would, in turn, enhance MHS.

A team of executives from MHS, American River, Catholic Healthcare West, and American River's parent, Alta Bates Corporation, negotiated the acquisition. Since MHS intended, after buying American River, to license it jointly with 217-bed Mercy San Juan, the leaders reviewed the two hospitals' missions, philosophies, strategies, and values; the review indicated that the organizations were compatible. The leadership styles also seemed to be aligned: Both American River and Mercy San Juan were moving from traditional bureaucratic hierarchies to empowered work forces, and both had begun continuous quality improvement efforts.

After obtaining approval from the Federal Trade Commission, MHS submitted a purchase proposal to Alta Bates Corporation. In the process.

Summary In 1991 American River Hospital, a facility in the suburbs of Sacramento, CA, was bought by Mercy Healthcare Sacramento. At the time, MHS owned three hospitals and a number of outpatient delivery sites. The acquisition fit MHS's strategic plan, which was to develop an integrated delivery system covering the metropolitan area.

After completing the purchase, MHS began consolidating the operations of the new Mercy American River Hospital with those of nearby Mercy San Juan Hospital. Consolidation was eased by the fact that the two facilities shared a primary service area, with many physicians serving on the staffs of both hospitals. Though they had been competitors, the hospitals had collaborated on a number of activities. And they shared a common vision of managed care.

An employee climate survey conducted in 1993 showed that some American River employees had, before the acquisition, feared being "inappropriately influenced by the Catholic Church." Others saw American River and Mercy San Juan as differing in their patient care and worried that the two styles might not be compatible. Still other American River employees were afraid they would lose their jobs.

But the survey revealed that American River employees had seen no major cultural barriers to the acquisition. They had perceived MHS as a values-driven organization whose focus was the healing ministry. During the consolidation, a joint MHS-American River communications team held meetings and published newsletters to help employees understand the process. American River employees participated in a formal blessing of the transfer of their hospital's ownership to MHS.
posai, which American River representatives helped write, MHS promised that, as the hospital's new owner, it would:
- Continue family-centered care
- Provide access in northern metropolitan Sacramento to high-quality, specialized healthcare as an alternative to "downtown" facilities
- Expand specialized services to meet community needs
- Offer another full-service Sacramento alternative for competitive managed care contracting
- Enhance cost savings through the development of services with higher specialized use
- Keep American River's leadership team and maintain continuity and quality of patient care.

The sale was completed in May 1991, and American River Hospital became Mercy American River Hospital. The transition process, involving structural, cultural, and operational changes, moved forward under the leadership of Mercy San Juan's administrator, who assumed responsibility for both campuses.

**Facilitating the Transfer**

"We had developed a transition plan prior to the closure of the sale," said Sr. McCarthy. "This helped us to effectively manage the complex issues associated with the transition." As part of this plan, American River's former chief executive officer became a member of MHS's regional senior management team following the acquisition. The former chief operations officer remained on campus as Mercy American River's operations administrator.

To minimize disruption during the consolidation, the leadership team initially focused on those "behind the scenes" activities that make it possible to manage finances, issue paychecks, control supplies, bill patients, and pay vendors. In addition, the leadership team studied Mercy American River and Mercy San Juan's administrative functions, with an eye toward their integration. The team also began a two-year evaluation of the direct patient care services offered by the two hospitals, intending to integrate them as well.

The consolidation process was eased by the fact that American River and Mercy San Juan shared a primary service area. They also shared a common vision of managed care.

**Cultural Considerations**

According to Sr. McCarthy, the cultural aspects of the transition presented the most complex and challenging issues faced by the leadership team. "Employees on both campuses were profoundly affected by the changes," she said. "We had to learn as we went along how to identify and respond to the issues."

In 1993 MHS conducted an employee climate survey, which gave the organization some insights into employee perceptions of the acquisition and transition. According to the survey, many American River employees saw no major cultural barriers to the acquisition. They perceived MHS as a values-driven organization whose focus was the healing ministry; and they believed that MHS's history was compatible with their own. For exam-
ple, both organizations had a patient-centered focus and mission to care for the poor. "We found [Mercy’s] leadership to be in tune with us," said one American River team leader. "The merger made sense and it felt right." The survey showed that most American River employees trusted MHS's leaders. "We had the feeling that we could practice medicine as before, and that money would not be the only focus," said an American River physician. On their side, Merq's San Juan's executives said they thought that American River's board and senior management had been very cooperative during the consolidation process.

But the process was not without friction. According to the survey, some American River employees worried that the hospital might be "inappropriately influenced by the Catholic Church." After the acquisition Mercy American River sold its teen clinic to a not-for-profit community hospital, and it would not perform abortions. According to the survey, some employees expressed concern about the "Mercy position on birth control/abortion."

Some American River employees said the merger left them upset over "control issues." "We were used to 'running our own ship,'" said one. "We had concerns about giving up control." Another said American River employees resisted becoming "Mercy-ized."

Then, too, some American River employees said there were important differences in the care American River and Mercy San Juan provided. The former, they said, focused on the personal touch, whereas the latter was high-tech, more fragmented, and even cold. And, at both hospitals, some employees resisted consolidation because they had developed an intense loyalty for their particular institution—and an equally intense disdain for the hospital they saw as a competitor. Competitive feelings were exacerbated on the American River campus by the development of a "survivor mentality," the result of several previous changes in ownership. "We felt like an unwanted child, even though several organizations seemed interested in purchasing us," said an employee. "We were worried about our jobs and our hospital."

This fear did not disappear when MHS acquired American River and began to consolidate it with San Juan. Some employees on both campuses expressed bitterness over the competition for jobs.

**Easing the Pain**

In recognition of employees' need for support, MHS's employee assistance program and Mission Services staff have been available. The chaplains from Mercy San Juan and Mercy American River jointly developed rituals to ease the consolidation process. Ceremonies, such as burying time capsules, were held at the time of acquisition. American River employees also participated in a formal blessing and dedication ceremony symbolizing the transfer of ownership and sponsorship.

Still, the transition was painful. "Some people wanted to make a go of it and really fit in," said one manager. "But about 25 to 60 percent of the employees are still feeling resentment, as if a death in the family had taken place. People pine for the old days."

Those who dealt best with the consolidation were those whose attitude was: "Let's get over this and move on."

**Mercy Healthcare Sacramento**

Mercy Healthcare Sacramento traces its history back to 1857, when 11 members of the Sisters of Mercy arrived in Sacramento to serve the sick and the poor. The system, which was formed in 1987, today has more than 5,000 employees. MHS comprises:

- Mercy General Hospital
- Mercy San Juan Hospital
- Mercy American River Hospital
- Methodist Hospital
- Mercy Hospital of Folsom

The system also has a number of outpatient delivery sites.

Mercy American River Hospital was founded in 1962 by a group of physicians. It has approximately 1,100 employees, a medical staff of 420 physicians, and an auxiliary of 230 men and women. The hospital enjoys a strong reputation for quality, family-centered care.**Communication: A Vital Factor**

Communication has been and continues to be a key part of the transformational process for MHS.
A joint MHS–American River communication team developed and implemented a variety of communication vehicles to help employees understand the transition. These communication vehicles included a newsletter and employee meetings. Orientation meetings were held to give American River employees plenty of information before the date the hospital changed ownership. (All employees were required to decide whether they wanted to continue their employment at the hospital under Mercy ownership.)

In both its purchase proposal and various communications to the public, the leadership team emphasized three key ideas:

- Patient care is a top priority.
- Employees and their families are very important.
- Dignity, compassion, hospitality, and quality are primary values.

These themes have remained dominant in the communications strategy since the acquisition.

Apparently the attention paid to good communication has been appreciated. Employees from American River have said the process was helped by the openness of discussion about the reasons for the acquisition. As one employee noted, “All the people at Mercy were very willing to discuss issues.”

However, others described problems in the communication process. Some felt the communications were great in the beginning but declined after the first year or two. One employee criticized some managers for “not wanting to share.” “They were not supportive of what was going on,” said this employee, “and too often said, ‘We don’t know,’ to questions. In this way, messages got misinterpreted.”

Still other employees, in describing employee forums that were held once a month, said the forums started as two-way conversations but became one-way conversations. “People left with a feeling of ‘What did they say?’ and began to call it ‘MBA-speak.’ We felt it was on too high a level for us average folks,” one employee complained.

“Communication is an ongoing challenge,” said Sr. McCarthy. “We have a very diverse employee population and a dynamic market, with changes occurring constantly. Our experiences with the American River transition have helped us to better understand the communication challenges and develop new ways to respond to them.”

**Prognosis: Looking to the Future**

The years 1991-1993 were a period of significant transition for Mercy American River as management of shared services, and in some cases the services themselves, were consolidated.

During this time MHS decided to develop a trauma center on the Mercy American River campus; the center would have been an important service for the hospital. At the same time, however, the realities of managed care were beginning to be felt in the market. As much of the local population converted from fee-for-service plans to managed care plans, hospital use rates began to decline. Faced with the prospect of further declines in the future, MHS’s leadership began to question the need to operate both Mercy San Juan and American River as acute care facilities. The trauma center was relocated to Mercy San Juan. MHS also decided that, by 1997, all acute care services on the Mercy American River campus would be consolidated on the Mercy San Juan campus.

This decision means, of course, that the transition is not over for Mercy American River employees. They are aware that the hospital will likely be converted to subacute use (as a long-term care facility, for example) within two years, and they recognize the necessity of this change.

**Lessons from the Transition**

The American River acquisition and subsequent transition has brought with it many insights into the ways individuals and organizations cope with change. Some of the lessons MHS leaders have learned are:

- Honor the people as they move from buildings or departments. Hold them in high esteem.
- Hold ceremonies and rituals that help people move on. Help them move from where they were to where they need to be.
- Spend more time on the organizational development process, especially with department managers.

“We have learned a great deal over the past four years,” said Sr. McCarthy. “We have been enriched as an organization and as individuals by the experiences, both positive and negative, this transition has brought about.”

For more information on Mercy Healthcare Sacramento’s acquisition of American River Hospital, call Cindy Holst at 916-851-2031.